

PGNiG UPSTREAM NORWAY AS

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Sandnes, 29.01.2021

Ref: Comments from PGNiG to the “**Methodology for Integrating Baltic Pipe in the Danish Market Model**” (referred to as “Consultation Document”)

Dear Mr Jacobsen,

attached please find PGNiG Group’s (“PGNiG”) remarks and comments related to the “**Methodology for Integrating Baltic Pipe in the Danish Market Model**” document (“Consultation Document”) which was published by Energinet (“ENDK”) and submitted for public consultations on 21 December 2020.

We would like to express our appreciation for the invitation to the consultation process. We acknowledge with satisfaction that ENDK continues to lead the process in a transparent manner and recognizes the importance of consulting regulatory solutions with participants of the gas market. We believe that the Consultation Document is a strong foundation for further discussion. As a market player that has actively participated in all sorts of consultations related to the development of the Danish gas market, PGNiG would thus like to take this opportunity to provide you with our ideas and suggestions. In addition to issues related to the Joint Market Model (“JMM”) we also touch upon tariff issues briefly outlined in the Consultation Document and discussed during the User’s Group meeting on 14 January 2021.

In our reply we highlight some issues that are important from the point of view PGNiG, the largest Baltic Pipe (“BP”) shipper. We nonetheless believe, however, that the issues we raise may be vital points also from the point of view of the general DK gas market.

Below please find a summary of our comments:

- **JMM general design concept** - we believe that at this moment any alternatives related to the structure of the JMM, especially related to inclusion of the historical North Sea upstream assets in the JMM or changes to the uniform tariff regime, should not be discussed.

The JMM concept in the current shape has been thoroughly discussed and confirmed with both the market and the regulator and presented to Open Season 2017 (“OS 2017”) shippers prior to making a booking. We believe that any changes to the currently presented agreed design principles will result in loss of market trust, significant tariff increases and potentially in triggering the Indemnity Clause stipulated in the OS 2017 Capacity Contract. We treat, however, the solutions presented by ENDK in the Consultation Document as specific means aimed at implementing the original JMM concept, rather than as an attempt to revisit the general JMM principles agreed earlier. **We fully support ENDK’s solutions presented in the Consultation Document.**



PGNiG sees them not only as fully in line with the ACER Gas Target Model, but also as practical and comprehensive instruments aimed at effective integration of the upstream BP part into the Danish transmission network. PGNiG believes that implementation of the proposed measures will allow to effectively operationalize the envisioned JMM concept.

- **Capacity / commodity split** - PGNiG represents the standpoint that increasing the fixed part tariff from 70/30 to 100/0 will most likely result in undue-cross subsidization of players booking durations of 1 year and less, by the long-term shippers. Under a 100/0 split the OS 2017 shipper will have absolutely no flexibility to react to market changes, whereas the significant 15 year 'baseload' booking (starting at 72% of total volume of DK market bookings and growing) will incentivize the remaining market players to shorten the durations of their bookings and effectively move towards a 0/100 split (i.e. book when they need in order to cut down on paid-for-but-not-used capacity) while still enjoying low tariffs. In the May 2019 tariff decision, DUR highlights that there may be factors influencing the choice of a capacity / commodity split which are different than the part of actually variable costs in the system. We believe that non-discrimination and preventing undue cross-subsidization may be valid factors to consider when proposing a capacity / commodity split. We therefore propose to leave the current 70/30 split or differentiate the split based on booking duration (i.e. lower fixed / variable split for longer-term bookings and higher split for shorter-term bookings).
- **Tariff deescalators for long-term bookings** - we support ENDK's efforts aimed at ensuring that deescalators for long-term bookings are approved by DUR for the next regulatory period. We declare our assistance in the process if needed. Whereas we understand that analytical works on the exact way of implementing the deescalators into the DK tariff system are in progress, PGNiG represents the view that a 0.90 deescalation (or lower) should be applicable 15 year bookings. This is the level that could (at least to some extent) mitigate the risks applicable to a booking of such a length and magnitude and hitherto unfavorable developments which occurred in the tariff area after PGNiG made its binding OS 2017 booking (increases in capacity / commodity split, TOTEX increases, proposals to include a ROI element in tariff-setting).

In the attached Appendix 1 please find our extended elaboration on the points mentioned above. If there is any need for clarifications on issues discussed in our reply, we will be happy to assist you. **We are open to meet with you**, elaborate on the points made in the attached document and discuss our views on the consulted topics in more detail.

Sincerely,
For PGNiG Upstream Norway AS



Marek Woszczyk
Chief Executive Officer

Appendix 1:
PGNiG Group input into the consultation process of the „Methodology for Integrating Baltic Pipe in the Danish Market Model